MicroCapital Monitor
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MICROCAPITAL BRIEFS I TOP STORIES

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Bill & Melinda Gates Foundation Pledges $500m to Expand Microsavings

The Bill & Melinda Gates Foundation of the US has pledged USD 500 million over five years to build a "new financial infrastructure" to bring savings services to the poor. The pledge includes the following grants: USD 11.4 million to the World Bank to generate baseline data on financial inclusion in 150 countries via a Gallup poll; USD 10 million to ShoreBank International to work with BRAC Bank to build "bKash," a scalable mobile money platform that will allow Bangladeshis to store, transfer and receive money via mobile phones; USD 7 million to Yale University and Innovations for Poverty Action to launch approximately 20 studies on savings and money-transfer outreach; USD 6 million to CGAP (Consultative Group to Assist the Poor) to promote the use of branchless banking; USD 4.8 million to Vodacom Tanzania Limited to increase usage of the mobile money service M-PESA in Tanzania; and USD 600,000 to the World Savings Bank Institute to identify viable projects for offering savings through 10 of its member banks. December 10. 2010

Guarantee Fund for Credit Unions Launched in Guatemala

The US-based World Council of Credit Unions and the Federacion Nacional de Cooperativas de Ahorro y Credito (FENACOAC), an association of 27 credit unions and cooperatives in Guatemala, have partnered to launch Mi Cooperativa (MICOOPE) Savings Guarantee Fund, a deposit-insurance institution offering USD 12,500 of deposit insurance per person per institution, five times more than is reportedly offered by commercial banks. FENACOAC member institutions, which together hold savings of USD 365 million, capitalized the fund at USD 5.5 million, with a goal of raising the pool to 3 percent of total deposits by 2015. December 10. 2010

Pain Spreads: Bank Stocks Fall in India, MFIs in West Bengal Face Cash Shortage

Recent analyses by Citi, a US-based international financial services conglomerate, indicate that banks in India are experiencing stress on their stock prices due to the falling quality of their microfinance institution (MFI) holdings, mainly due to the recent trouble in the state of Andhra Pradesh that followed a series of suicides that were said to be linked to debt collector harassment. (For background, please see our special coverage in the November issue of this newspaper.) Citi estimates that banks' profits could drop by 50 percent depending on their exposure to the microfinance sector. In the case of YES Bank, shares fell a total of 10 percent in three recent trading sessions. The poison is also spreading beyond Andhra Pradesh, with MFIs in the state of West Bengal reportedly facing a cash crunch. Those that rely on loans from banks are said to have cut loan disbursements by up to 50 percent. CEO Kuldip Maity of Village Financial Services was quoted as saying, "If the situation continues like this, the entire MFI system will collapse." November 26 and December 2. 2010

(For more top stories, please refer to the subscriber edition)

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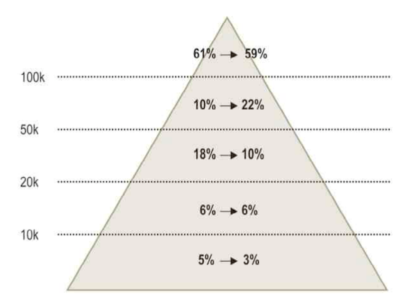
PERU
MFI MARKET SHARE TRENDING 2007 TO 2009
BY MFI SIZE (NUMBER OF ACTIVE BORROWERS)



MARKET INDICATORS*

FIELD NOTES

One-stop Shopping: If It Worked for Amazon.com, It Can Work for MFIs

In our line of work, we are blessed with the inspiration that comes from meeting people with incredible courage and drive, who run businesses, support their families and survive against the odds. Last week, I visited Angela Maria, who lives in the outskirts of Medellin, Colombia. She moved here a few years ago to get away from extortionists who had threatened her repeatedly in her old home in a poor and violent part of the city. She and her family packed up and left, fearing for their lives.

With nowhere to turn, she made some juice concentrate and sold it to a nearby store. She paid for the materials with money borrowed from a loan shark, who collected payments with 20 percent monthly interest on a daily basis...or else! When she sold her first products, she expected to make some money; instead, customers demanded their money back. The juice tasted horrible. With nothing left but an angry loan shark, a stained record at the credit bureau from defaulting on her home loan and a bad recipe for juice concentrate, Angela Maria went to a microfinance institution (MFI), Interactuar. Staff there gave her a loan to pay off the loan shark, but also taught her a better recipe for the concentrates. Since then, Interactuar has trained Angela Maria and her employees in food management. It has also provided business advice, had the composition and nutritional information of her products tested in a modern lab and designed new packaging for better distribution. Today, Angela Maria has a small yet vibrant home-based business manufacturing and selling jams, juice concentrates, grains and canned fruits to supermarkets and corner stores. She has three formal employees, as well as herself and her daughter.

Last month in this space, I noted that it's time to rethink the value proposition of MFIs, suggesting that these institutions should consider offering a wide variety of financial and non-financial services, perhaps for lower margins, to increase their overall income and build client loyalty. I expected quite a bit of resistance, but instead people have been receptive. Several MFIs - like Interactuar - are projecting traditional microfinance business models into new territories. In Guatemala, MFI Genesis Empresarial offers clients training in skills such as manufacturing bath and beauty products, which provide clients with better margins. This is the kind of value-added service that gives Genesis confidence that it can stand the test of time - even as giant Compartamos Banco plans to enter the marketplace from Mexico.

Fifteen years ago, when Amazon.com first came to the US market as an online bookstore, CEO Jeff Bezos explained that he chose the company's unusual name because he foresaw that the company would not be selling just books for long, but instead would grow into an online shopping center with a range of products as vast as the Amazon region. At the time, that seemed like a stretch, but they got me hooked with the books, and today I can buy a television, milk or a party dress on Amazon.com. While offering non-credit services such as business training can be very expensive, without such offerings people like Angela Maria would likely be selling raw fruit on the side of the road. Instead she gave my friends at Interactuar a holiday basket of jams, juices and other goodies worth as much as her first loan to thank them for believing in her. Perhaps one day, she'll be selling her products on Amazon.com.

About the Author: Ms Barbara Magnoni is President of EA Consultants, a development consulting firm based in New York. She has 15 years of international finance and development experience and has worked with organizations including Goldman Sachs, Chase and BBVA and has advised institutions such as the International Finance Corporation, the US Agency for International Development and the International Labour Organization. She may be reached at +1 212 734 6461 or bmagnoni@eac-global.com.

PAPER WRAP-UPS

Microfinance and Gender: Is There a Glass Ceiling in Loan Size?

By Isabelle Agier and Ariane Szafarz, published by Pontifical Catholic University of Rio de Janeiro and Universite Libre de Bruxelles, March 2010, 37 pages, available at: http://ssrn.com/abstract=1573872

While the microfinance industry is well-known for serving women in developing countries, do microfinance institutions (MFIs), in fact, serve them fairly? By analyzing 34,000 loan applications taken over the course of 11 years at the Vivacred in Rio de Janeiro, Brazil, the authors of this paper examine whether there is discrimination against women in the provision of microcredit.

The authors conclude that there is no discrimination against women in the approval rate of microloans, but there does appear to be a "glass ceiling" on the amount of money loaned to women. The data revealed that all women who meet the standards for loan approval end up with the same loan size at Vivacred, whether or not they are more capable than men - or other women for that matter. The highest loan amounts were always reserved for the most able male candidates.

The practice of limiting loan size to women is not only unfair to the women, but it also limits the financial sustainability of the MFI... *(Continued in the subscriber edition)*

Savings Groups: What Are They?

By Hugh Allen and David Panetta, published by Small Enterprise Education and Promotion (SEEP) Network, June 2010, 64 pages, available at: http://seepnetwork.org/PDFfiles/Savings_FINAL_web.pdf

Even as microlenders become a popular channel through which to reach the poor, many of those in rural areas and urban slums remain without access to formal financial services. Reasons for this include the perception of high costs to reach remote areas, borrowers' restricted debt capacity due to seasonal production and an increasing interest in savings instead of credit. As a result, informal savings groups continue to grow in popularity.

Members of a savings group save together, lend their savings to each other with interest and share the profits. The authors argue that savings groups have the capacity to create a sense of autonomy among group members, improve gender relations by empowering women and foster local democratic governance through the promotion of transparency. If enough savings are available, they also have the capacity to make enough loans to supplant unscrupulous moneylenders.

The authors take a close look at a savings project carried out in the 1990s in rural Maradi, Niger, by the local affiliate of Swiss nonprofit CARE International. The training system emphasized management committee elections and that people would get their savings and interest earned at the end of a set term. CARE Niger found that this "time-bound" approach helped the savings group become independent after about a year of supervision. "Cash-out" cycles are often timed to provide liquidity when it is likely to be most needed, such as between harvests. As of 2010, an estimated 197,000 women in Niger belong to savings groups.

Today, "facilitating agencies" send field officers to mobilize, train and supervise many types of savings groups. Some groups use ledgers or passbooks to track member savings, while others use memorization; some groups allow members to save different amounts; and some allow members to withdraw their funds on demand. Even as the parameters continue to evolve, there are general characteristics that have remained the same: groups range from 5 to 30 members (with an average of 22); members decide who joins the group; only management members handle money, which is kept in a lockbox; groups develop their own rules; savings are used to capitalize a loan fund from which members can borrow; and records of each member's savings are kept and routinely updated.

The authors note that savings groups have compensated for the lack of formal credit services in areas that microfinance institutions (MFIs) cannot reach. Savings groups meet small credit... *(Continued in the subscriber edition)*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